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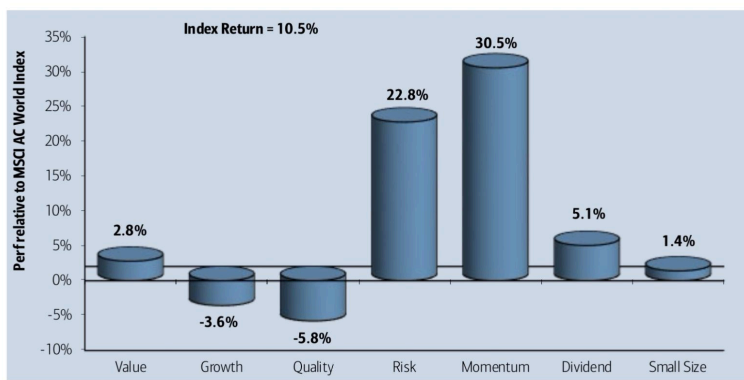
Investors often prefer Quality companies because earnings are stable and predictable. But Quality tends to underperform when markets rally -especially when driven by momentum and where price-to-earnings (P/E) multiple expansion explains much of the market growth (multiple expansion is where stock prices move higher not because companies are more profitable, but because investors are willing to pay more for a stock based on the *anticipation* of higher future profitability).

Year-to-Date (YTD) global equities have rallied 10%, but global Quality is down 6%. This is a marked divergence that leaves investors wondering is something is wrong and whether changes have to be made to asset allocations.



Source : BofA Global Quantitative Strategy, MSCI, IBES, S&P, Worldscope, Bloomberg
Performance is based on our monthly-rebalanced 30-stock Quantessential Styles.
BofA GLOBAL RESEARCH

Our view is this: the mere fact that a component of the portfolio is underperforming is not in itself a reason to make changes to one's portfolio. Providing there is a compelling case for why this is so -and there is for Quality companies- then the most prudent course of action is to stay the course. More, there is something almost re-assuring about asymmetrical outcomes, because it re-enforces the point that the portfolio is well diversified.

Over time, fundamentals re-assert themselves and it is only a matter of time before investors return to Quality companies based on double-digit growth in earnings (profits). Momentum in risk assets is a shorter term phenomenon, and if one looks at 10 year numbers, we can see that earnings growth accounts for 65% of stock market gains.

Investment horizon	% contribution of total return*		
(months)	Earnings	Price-to-Earnings	Dividends
1	0	98	2
3	14	81	5
6	30	62	8
12	44	46	10
60	53	24	22
120	65	3	31

Since inception the Guardian Fundamental Global (our Quality position in our asset allocations) has an average annual compound growth rate of 13.6%*, in line with the earnings growth of the companies they invest in. This speaks to the correlation (Beta) of earnings and stock prices, where over the long term the Beta is 1:1. Recent underperformance then suggests that better returns are ahead, where there is a reversion to the norm.

It's impossible to know which investment style will lead the markets in any given year. This is why diversifying across different mandates is important to successful investment outcomes over the long term. Be diversified, be informed and be patient. Time will reward the investor who follows these principles.

Thanks for reading!

Martin

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Sources:

Chart 2: Guardian Capital

*From Inception 7/31/2024 - 7/31/2025 for Series I Source: https://www.guardiancapital.com/institutional-investment-management/prospectused-funds/gcg-478/#performance

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